

Council Policy

Policy Name: Investment
Department Name: Finance
Policy No.: FIN-140
Effective Date: May 27, 2014

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STATEMENT:

The Regional Municipality of Wood Buffalo (the "Municipality") will invest public funds in a prudent manner that will provide optimum investment returns with the maximum security while meeting cash flow requirements of the Municipality. Investments must conform to the policies and guidelines set forth below, as well as operate within the language and spirit of legislative requirements under the Municipal Government Act (Section 250, Investments) and applicable regulations.

PURPOSE AND OBJECTIVE:

The purpose of this policy is to provide general investment principles, rules, and delegated authority for managing and monitoring the Municipality's surplus cash position, trust and reserve funds (the "Fund"). Adherence to the Investment Policy will ensure compliant and effective investment management and assist in achieving the strategic goals and growth objectives of the Municipality.

PROCEDURES:

1. Definitions

- 1.1. Benchmark – A standard against which the performance of an investment manager can be measured. Generally, broad market stock and bond indexes are used for this purpose.
- 1.2. Bond Rating Service – A corporation whose primary business mandate is to analyze the credit-worthiness of debt securities issued by all levels of government and corporations and make recommendations as to the risk level of such debt.
- 1.3. Diversification – A risk-management technique that mixes a wide variety of investments within a portfolio. The rationale behind this technique contends that a portfolio of different kinds of investments will, on average, yield higher returns and pose a lower risk than any individual investment found within the portfolio. Diversification strives to smooth unsystematic risk events in a portfolio so that the positive performance of some investments will neutralize the negative performance of others. Therefore, the benefits of diversification will hold only if the securities in the portfolio are not perfectly correlated.
- 1.4. Investment Manager – A person or organization that makes investments in portfolios of securities on behalf of clients, in accordance with the investment objectives and parameters defined by these clients. An investment manager may be responsible for all activities associated with the management of client portfolios, from buying and selling securities on a day-to-day basis to portfolio monitoring, settlement of transactions, performance measurement, and regulatory and client reporting.

- 1.5. Liquidity – The ability to convert an investment into cash with minimal risk associated with loss of principal or accrued interest, taking into consideration any costs associated with converting investments into cash.
- 1.6. Market Value – The price at which a security is trading in the open market.
- 1.7. Portfolio – Collection of securities held by an investor.
- 1.8. Rate of Return – The time-weighted, total return on an investment over a specified period. Total return includes the income received during the measurement period plus realized and unrealized capital gains, expressed as a percentage of beginning market value.
- 1.9. Rating Definitions – Ratings in this policy are based on Dominion Bond Rating Service definitions rating scale (DBRS). However, comparable Standard & Poor's (S&P) and Moody's rating scales may apply.

Money Market Ratings:

- 1.9.1. R-1 High - highest credit quality, unquestioned ability to repay current liabilities as they fall due.
- 1.9.2. R-1 Middle - superior credit quality, above average strength in key areas of consideration for debt protection.
- 1.9.3. R-1 Low - satisfactory credit quality, considerations for debt repayment still respectable.

Bond Ratings:

- 1.9.4. AAA - highest credit quality, exceptionally strong protection for the timely payment of principal and interest; establishment of a creditable track record of superior performance.
 - 1.9.5. AA - superior credit quality and protection of interest and principal is considered high; they differ from bonds rated AAA only to a small degree.
 - 1.9.6. A - satisfactory credit quality as protection of interest and principal is still substantial; the degree of strength is less than with AA rated entities.
- 1.10. Securities – Bonds, debentures, trust certificates, guaranteed investment certificates or receipts, certificates of deposit, deposit receipts, bills, notes, and rights or interests in respect of a security.

2. Responsibilities

- 2.1. Council to approve the policy.
- 2.2. Audit and Budget Committee (ABC) to review and accept investment reports provided by Investment Advisory Committee (IAC) annually.
- 2.3. Chief Administrative Officer (CAO) to implement this policy.

- 2.4. Investment Advisory Committee (IAC) to oversee and implement the management process and monitor the Fund in accordance with this policy.
- 2.5. Investment Managers to manage the Fund in accordance with this policy.

3. Guidelines

Governing Legislation:

- 3.1. The investments of the Fund are regulated by the following legislation:
 - 3.1.1. *Municipal Government Act*, RSA 2000, cM-26, s250, as amended, and
 - 3.1.2. *Municipal Government Act*, RSA 2000, Investment Regulation 66/2000, as amended, and
 - 3.1.3. *Trustee Act*, RSA 2000, cT-8, s2 and 3, as amended.

Scope:

- 3.2. This policy applies to all investment activities of the Municipality with regard to the Fund.
- 3.3. The policy does not include Part IX companies' investments, Regional Recreation Corporation or other entities controlled by the Municipality unless expressly identified.

General Objectives:

- 3.4. The primary objectives, in priority order, of investment activities shall be:
 - 3.4.1. Safety - Investments shall be undertaken in a manner that seeks to ensure the preservation of capital.
 - 3.4.2. Liquidity - The investment portfolio shall remain sufficiently liquid to meet all operating and capital cash requirements that may be reasonably anticipated.
 - 3.4.3. Return - The investments of the Fund shall be structured with the objective of attaining a total return commensurate with the respective portfolio benchmarks as defined in this policy.

Standard of Care:

- 3.5. Prudence - In exercising their responsibilities, municipal personnel, the Investment Advisory Committee, custodian, investment managers and any other agent or advisor shall adhere to the following guidelines:
 - 3.5.1. They shall exercise the degree of care, diligence and skill that a person of ordinary prudence would exercise in dealing with the property of another person.
 - 3.5.2. Without limiting the generality of (3.4.1.1), persons who possess, or because of their profession, business or calling, ought to possess, a particular level of knowledge or skill relevant to their responsibilities to the Fund, shall apply that particular knowledge or skill set to the investment activities and administration of the Fund.

Ethics and Conflicts of Interest:

- 3.6. Investment managers shall abide by both the Code of Ethics and Standards of Professional Conduct and the Asset Manager Code of Professional Conduct as established by the Chartered Financial Analyst Institute.
- 3.6.1. Municipal personnel involved in investment activities of the Fund shall refrain from personal activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial investment decisions. Material interests in financial institutions with which they conduct business and any personal financial/investment positions that could be related to the performance of the investment portfolio shall be disclosed to both the Chief Financial Officer and the Chief Administrative Officer.
- 3.6.2. Municipal personnel shall refrain from undertaking any personal investment transactions with the same individual with whom business is conducted on behalf of the Municipality.

Investment Managers Qualification and Selection:

- 3.7. Investment Managers handling the Municipality's investments shall be required to be registered with the Alberta Securities Commission and to maintain good standing membership with the Investment Industry Regulatory Organization of Canada.
- 3.8. The selection of Investment Managers authorized to provide investment services to the Municipality shall be conducted at least every five years.

Safekeeping and Custody:

- 3.9. Fund investments will be held by a third-party custodian selected and approved by the Investment Advisory Committee.

Internal Controls:

- 3.10. The Chief Financial Officer or designate shall establish and maintain a system of internal controls designed to prevent the loss of public funds arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in financial markets and imprudent actions by employees and officers of the Municipality. The system of internal controls, once established, will be reviewed and confirmed by the municipality's auditors.

*Permitted Investments:**Investment Types:*

- 3.11. The Municipality's funds shall be invested in two general types of investments:
- 3.11.1. Short term investments are used to fund general operating requirements of the Municipality and have a maturity date of one year or less.
- 3.11.2. Medium and long-term investments are surplus funds that are not expected to be used within one year and have a maturity date that exceeds one year.

Permitted Investments:

- 3.12. Permissible investments in the Fund will be restricted to fixed income securities that meet the investment parameters defined in this policy.

- 3.13. Categories of investment that are not permissible include, but are not limited to, investments in equities, commodities, precious metals, derivatives, repurchase agreements, asset backed securities, hedge funds, real estate in the form of direct property ownership and collectibles.

Investment Parameters:

- 3.14. Investments must meet the following credit rating limits, issuer limits, term limits and exposure limits.

Short-term Portfolio:

- 3.14.1. The minimum rating for short-term securities is R1 (low).
- 3.14.2. Maximum holdings of the short-term investment portfolio by credit rating are:
- 3.14.2.1. 100% for AAA, AA and A ratings;
- 3.14.3. Maximum holdings of the short-term investment portfolio by issuer:
- 3.14.3.1. 100% for federal issues and guarantees;
- 3.14.3.2. 100% for provincial issues and guarantees;
- 3.14.3.3. 40% for municipal issues; and
- 3.14.3.4. 40% for corporate issues.
- 3.14.4. Maximum term limits for the short term investment portfolio are one year weighted average.
- 3.14.5. Not more than 2% of the cost value of the entire investment portfolio may be invested in a single security with the exception of securities issued by the Government of Canada and guarantees or a provincial government and guarantees with an A-rating or higher at time of purchase. The Municipality will advise the dollar limits associated with the 2% ceiling annually.

Medium and Long-term Portfolio:

- 3.14.6. The minimum rating for the medium and long term securities is single A.
- 3.14.7. Maximum holdings of the medium and long term investment portfolio by credit rating are 100% for AAA, AA and A ratings; and
- 3.14.8. Maximum holdings of the medium and long term portfolio by issuer:
- 3.14.8.1. 100% for federal issues and guarantees;
- 3.14.8.2. 100% for provincial issues and guarantees;
- 3.14.8.3. 40% for municipal issues; and,
- 3.14.8.4. 40% for corporate issues.
- 3.14.9. Maximum term limits for the medium and long term investment portfolio are ten years weighted average.
- 3.14.10. Not more than 2% of the cost value of the entire investment portfolio may be invested in a single security with the exception of securities issued by the Government of Canada and guarantees or a provincial government and guarantees with an A-rating or

higher at time of purchase. The Municipality will advise the dollar limits associated with the 2% ceiling annually.

- 3.14.11. Credit ratings refer to the ratings issued by Dominion Bond Rating Service or an equivalent recognized ratings agency. In the event of one or more ratings differing from the others, the most conservative rating shall prevail.

Compliance Monitoring:

- 3.15. The Chief Administrative Officer or designate shall monitor investment activities to ensure compliance with investment parameters and shall provide quarterly compliance reporting.

Performance Standards:

- 3.16. The following market benchmarks are generally accepted measures for relative performance assessment purposes. However, specialty mandates may require a customized equivalent benchmark to be established by the investment managers and the Municipality.

<u>Category</u>	<u>Performance Benchmarks</u>
Short-term Investments (< 1 year)	FTSE TMX 91 Day Treasury Bill Index
Medium-term Investments (<5 years)	FTSE TMX Government Short-Term Bond Index
Long-term Investments (>5 years)	FTSE TMX Government Mid-Term Bond Index

Reporting:

- 3.17. The Chief Administrative Officer or designate shall prepare an investment report at least annually for the Audit and Budget Committee, and quarterly for the Investment Advisory Committee. The report shall include, at a minimum, the following:

- 3.17.1. Financial market and economic update;
- 3.17.2. Rates of return for the total Fund and individual categories and benchmarks for the prior one month, three months, one year and annualized periods and fiscal year to date; and,
- 3.17.3. Investment exceptions report detailing investment activities that breached an investment parameter, reasons for the breach and action plan.

Investment Governance:

- 3.18. The governance structure established is designed to ensure that the Municipality's investment is managed prudently, appropriately and in compliance with the applicable legislation and this Policy. Three principal levels of responsibility are described as the following:

- 3.18.1. Council shall approve all investment policies;
- 3.18.2. Audit and Budget Committee (the "ABC") shall review and accept investment reports update(s) presented by Investment Advisory Committee annually; and
- 3.18.3. Investment Advisory Committee (IAC) (the "Committee") shall provide oversight to the governance and management of the Municipality's investments, and report to the ABC at least annually.

3.19. The Committee (IAC) shall comprise of at least six members of management, and shall include the Chief Administration Officer and or designate - Chief Operating Officer, Chief Financial Officer (“Chairperson”), Director of Finance (“Vice-Chairperson”) and the Treasurer or person acting in a similar capacity who shall act as Secretary to the Committee (“Secretary”).

3.20. The Committee (IAC) shall meet at least four times annually.

APPROVAL, MANAGEMENT AND REFERENCES:

This policy shall be reviewed every year from its effective date to determine its effectiveness and appropriateness. This policy may be assessed before that time as necessary to reflect organizational change.

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Policy Manager:	Chief Financial Officer
Department Contact:	Director of Finance
Legal References:	
Cross References:	

Mayor

Chief Legislative Officer

Date